

SCHEDULES

SCHEDULE 18

DEMERGERS

PART I

RELIEF FROM ADVANCE CORPORATION TAX AND INCOME TAX

Exemption from provisions applying to company distributions

- 1 (1) References in the Corporation Tax Acts to distributions of a company shall not apply to any distribution which is an exempt distribution by virtue of this Part of this Schedule.
- (2) A distribution is an exempt distribution if it falls within paragraph 2 below and the conditions specified in this Part of this Schedule are satisfied.

Relevant distributions

- 2 (1) The following distributions fall within this paragraph—
- (a) a distribution consisting of the transfer to all or any of its members by a company (" the distributing company ") of shares in one or more companies which are its 75 per cent, subsidiaries;
 - (b) a distribution consisting of the transfer by a company (" the distributing company") to one or more other companies (" the transferee company or companies") of—
 - (i) a trade or trades; or
 - (ii) shares in one or more companies which are 75 per cent, subsidiaries of the distributing company, and the issue of shares by the transferee company or companies to all or any of the members of the distributing company.
- (2) References in this Schedule to a relevant company are to the distributing company, to each subsidiary whose shares are transferred as mentioned in sub-paragraph (1) (a) or (b)(ii) above and to each transferee company mentioned in sub-paragraph (1) (b) above.

Conditions

- 3 Each relevant company must be resident in the United Kingdom at the time of the distribution.
- 4 The distributing company must at the time of the distribution be either a trading company or a member of a trading group and each subsidiary whose shares are

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transferred as mentioned in paragraph 2(1)(a) or (b)(ii) above must at that time be either a trading company or the holding company of a trading group.

- 5 (1) in a case within paragraph 2(1)(a) above—
- (a) the shares must not be redeemable, must constitute the whole or substantially the whole of the distributing company's holding of the ordinary share capital of the subsidiary and must confer the whole or substantially the whole of the distributing company's voting rights in the subsidiary; and
 - (b) subject to sub-paragraph (2) and paragraph 8(b) below, the distributing company must after the distribution be either a trading company or the holding company of a trading group.
- (2) Sub-paragraph (1)(b) above does not apply if the transfer relates to two or more 75 per cent, subsidiaries of the distributing company and that company is dissolved without there having been after the distribution any net assets of the company available for distribution in a winding up or otherwise.
- 6 (1) In a case within paragraph 2(1)(b) above—
- (a) if a trade is transferred the distributing company must either not retain any interest or retain only a minor interest in that trade ;
 - (b) if shares in a subsidiary are transferred those shares must constitute the whole or substantially the whole of the distributing company's holding of the ordinary share capital of the subsidiary and must confer the whole or substantially the whole of the distributing company's voting rights in the subsidiary;
 - (c) the only or main activity of the transferee company or each transferee company after the distribution must be the carrying on of the trade or the holding of the shares transferred to it;
 - (d) the shares issued by the transferee company or each transferee company must not be redeemable, must constitute the whole or substantially the whole of its issued ordinary share capital and must confer the whole or substantially the whole of the voting rights in that company ; and
 - (e) subject to sub-paragraph (2) and paragraph 8(b) below, the distributing company must after the distribution be either a trading company or the holding company of a trading group.
- (2) Sub-paragraph (1)(e) above does not apply if there are two or more transferee companies each of which has a trade or shares in a separate 75 per cent, subsidiary of the distributing company transferred to it and the distributing company is dissolved without there having been after the distribution any net assets of the company available for distribution in a winding up or otherwise.
- 7 (1) The distribution must be made wholly or mainly for the purpose of benefiting some or all of the trading activities which before the distribution are carried on by a single company or group and after the distribution will be carried on by two or more companies or groups.
- (2) The distribution must not form part of a scheme or arrangements the main purpose or one of the main purposes of which is—
- (a) the avoidance of tax ; or
 - (b) without prejudice to paragraph (a) above, the making of a chargeable payment as defined in paragraph 13 below or what would be such a payment if any of the companies mentioned in that paragraph were an unquoted company; or

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- (c) the acquisition by any person or persons other than members of the distributing company of control of that company, of any other relevant company or of any company which belongs to the same group as any such company; or
- (d) the cessation of a trade or its sale after the distribution.

8 Where the distributing company is a 75 per cent, subsidiary of another company—

- (a) the group (or, if more than one, the largest group) to which the distributing company belongs at the time of the distribution must be a trading group ;
- (b) paragraphs 5(1)(b) and 6(1)(e) above shall not apply; and
- (c) the distribution must be followed by one or more other distributions falling within paragraph 2(1)(a) or (b)(ii) above which satisfy the conditions of this Part of this Schedule and result in members of the holding company of the group (or, if more than one, the largest group) to which the distributing company belonged at the time of the distribution becoming members of—
 - (i) the transferee company or each transferee company to which a trade was transferred by the distributing company ; or
 - (ii) the subsidiary or each subsidiary whose shares were transferred by the distributing company; or
 - (iii) a company (other than that holding company) of which the company or companies mentioned in subparagraph (i) or (ii) above are 75 per cent, subsidiaries.